

**THE OFFICE OF REGULATORY STAFF
SURREBUTTAL TESTIMONY AND EXHIBIT
OF**

A. Randy Watts



**DOCKET NO. 2006-2-E
South Carolina Electric and Gas Company
Annual Review**

(REDACTED)

SURREBUTTAL TESTIMONY OF**A. RANDY WATTS****ON BEHALF OF****THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF****DOCKET NO. 2006-2-E****IN RE: SOUTH CAROLINA ELECTRIC & GAS COMPANY-
ANNUAL REVIEW OF BASE RATES FOR FUEL COSTS**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND
OCCUPATION.**

A. My name is A. Randy Watts. My business address is 1441 Main Street, Suite 300, Columbia, South Carolina 29201. I am employed by the State of South Carolina as Program Manager in the Electric Department for the Office of Regulatory Staff ("ORS").

**Q. HAVE YOU PREVIOUSLY FILED DIRECT TESTIMONY IN THIS
PROCEEDING?**

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to respond to comments of Mr. Haimberger made on behalf of South Carolina Electric & Gas Company (SCE&G) pertaining to an analysis of off-shore coal purchases included in the ORS fuel study ("study") filed on January 31, 2006. In addition, I will respond to Mr. Haimberger's remarks on page 5 of his Reply Testimony concerning the effect of deferral of fuel cost collections.

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1 **Q. PLEASE ADDRESS MR. HAIMBERGER'S COMMENT THAT THE ORS**
2 **FUEL STUDY DID NOT INCLUDE ALL RELEVANT APPLICABLE**
3 **FACTORS IN ITS COMPARISON OF THE VALUE OF COAL**
4 **PURCHASES MADE BY THE COMPANY.**

5 **A.** [REDACTED]

6 [REDACTED]

7 [REDACTED]

8 [REDACTED]

9 [REDACTED]

10 **Q. DO YOU AGREE WITH MR. HAIMBERGER'S CONCLUSION THAT**
11 **WITH THE VALUE-ADDED ASSESSMENT THE OFF-SHORE COAL**
12 **PURCHASES WERE FULLY COMPETITIVE WITH DOMESTIC**
13 **PURCHASES?**

14 **A.** [REDACTED]

15 [REDACTED]

16 [REDACTED]

17 [REDACTED]

18 [REDACTED]

19 [REDACTED]

20 [REDACTED]

21 [REDACTED]

22 [REDACTED]

23 [REDACTED]

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1 [REDACTED]

2 [REDACTED]

3 **Q. DOES THE INCLUSION OF THESE VALUE-ADDED FACTORS**
4 **AFFECT THE CONCLUSION OR VALIDITY OF THE FUEL STUDY?**

5 **A.** [REDACTED]

6 [REDACTED]

7 [REDACTED]

8 [REDACTED]

9 [REDACTED]

10 [REDACTED]

11 [REDACTED]

12 [REDACTED]

13 [REDACTED]

14 **Q. PLEASE ADDRESS MR. HAIMBERGER'S REMARKS CONCERNING**
15 **THE EFFECT OF DEFERRING THE FUEL COST COLLECTIONS.**

16 **A.** On page five of his testimony, Mr. Haimberger indicates that if the
17 proposed two-year levelization is approved the resulting deferral of fuel costs will
18 cause fuel cost recovery factor increases in 2007-2008 in addition to the increases
19 anticipated due to coal contract renegotiations.

20 Assuming the forecasts are reliable and accurate, and to my knowledge
21 they have not been challenged in this proceeding, then the main variable in fuel
22 costs for the Company's next annual fuel review in 2007 is the effect of the
23 outstanding coal contract renegotiations. Since ORS's proposed factor of 2.516

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1 cents per kilowatt-hour includes an increment for recovery of one-half the
2 estimated under-recovery at April 2006, or \$19.244 million, there will be no need
3 to further adjust the base for the 2007-2008 period for collection of the remaining
4 half since it will already be included in the base fuel factor. Therefore there would
5 be no compounding of future increases.

6 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

7 **A.**Yes, it does.